

Message Text

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PAGE 01 EC BRU 00733 232005Z

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SUBJECT: EC COMMISSION OFFICIALS COMMENT ON IMF INTERIM COMMITTEE
MEETING AND PROSPECTS FOR NEW SYSTEM

REF: (A) EC BRUSSELS 0076, (B) 75 EC BRUSSELS 11278, (C) EC BRUSSELS
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1. SUMMARY: COMMISSION FINANCE OFFICIALS ARE RELIEVED TO
HAVE THE RANCOR OF THE INTERNATIONAL MONETARY REFORM
DEBATE BEHIND THEM. THEY NOW WANT TO MAKE THE SYSTEM
WORK BY MAINTAINING ORDERLY EXCHANGE MARKETS, COORDINATING
ECONOMIC POLICIES AND EMPHASIZING SOUND ECONOMIC MANAGEMENT.
THEY FAVOR THE STEADY EVOLUTION TOWARD GUIDED EXCHANGE RATES
AS A WAY TO STABILIZE RATES AND THEREBY IMPROVE THE
INTERNATIONAL ECONOMIC SITUATION. SOME OFFICIALS ARE
CONCERNED OVER CONTINUED EC DEPENDENCY ON THE US IN MONETARY
AFFAIRS BUT THEY SEE LITTLE PROSPECT OF THE EC BECOMING
AN EFFECTIVE COUNTER-WEIGHT TO US IN THE FORESEEABLE
FUTURE. END SUMMARY.

2. REACTIONS TO JAMAICA MEETING: COMMISSION FINANCE
OFFICIALS ARE SATISFIED WITH THE CONCLUSION OF THE
RECENT IMF INTERIM COMMITTEE MEETING. IT HAS CONCLUDED
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PAGE 02 EC BRU 00733 232005Z

FIVE YEARS OF RANCOROUS DEBATE OVER REFORM OF THE
INTERNATIONAL MONETARY SYSTE. IMF MEMBERS, PARTICULARLY

THE INDUSTRIALIZED COUNTRIES, CAN NOW TURN TO MAKING THE NEW SYSTEM WORK. OFFICIALS HERE ARE ALSO PLEASED OVER THE SPIRIT OF FRANCO-US COOPERATION AT JAMAICA; THIS AUGURS WELL FOR CLOSER EC-US COOPERATION IN INTERNATIONAL MONETARY MATTERS.

3. US TRIUMPH: THEY SEE THE IMF REFORMS AS ESSENTIALLY A RECOGNITION OF EXISTING REALITIES AND AS A TRIUMPH FOR THE US. THE INTERIM COMMITTEE OFFICIALLY RECOGNIZED THE FLOATING RATE SYSTEM, UNDERTOOK TO PHASE GOLD OUT OF THE SYSTEM, AND REAFFIRMED THE DOLLAR AS THE PRIMARY INTERNATIONAL RESERVE CURRENCY. THESE OFFICIALS ADD THAT THE SDR WILL NOT REPLACE THE DOLLAR AS THE PRIMARY RESERVE ASSET FOR THE FORESEEABLE FUTURE.

4. SOME CONCERNS: COMMISSION OFFICIALS ARE CONCERNED THAT UNDER THE NEW SYSTEM THE US WILL BE ABLE TO OPERATE MORE AUTONOMOUSLY THAN UNDER THE BRETTON WOODS SYSTEM. THE OLD SYSTEM IMPOSED THE CONSTRAINTS ON THE US OF DOLLAR CONVERTIBILITY INTO GOLD AND MAINTENANCE OF A PAR VALUE. SOME OFFICIALS BELIEVE THAT ELEMENTS OF THE NEW SYSTEM COULD BE DISRUPTIVE; 1) THE SYSTEM DEPENDS LARGELY ON SOUND MANAGEMENT OF THE US ECONOMY; 2) THE US MAY HAVE A MORE AGGRESSIVE ATTITUDE TOWARDS ITS COMPETITIVE POSITION IN INTERNATIONAL TRADE THAN WAS THE CASE DURING MUCH OF THE BRETTON WOODS PERIOD; AND 3) OVER THE PAST 30 YEARS WORLD ECONOMIC POWER HAS EVOLVED FROM A POSITION OF US DOMINANCE TOWARD A MULTI-POLAR STRUCTURE IN WHICH SEVERAL OF THESE POLES ARE MANEUVERING FOR INCREASED ECONOMIC INFLUENCE. FOR EXAMPLE, THE STRENGTH AND RELATIVE STABILITY OF THE EUROPEAN MONETARY SNAKE, THEY BELIEVE, ARE CAUSING THE EC TO EVOLVE TOWARD A DISTINCT MONETARY ZONE. THESE DEVELOPMENTS COULD INCREASE THE INSTABILITY OF THE CURRENT UNIPOLAR MONETARY SYSTEM.

5. OTHER VIEWS: OTHER COMMISSION FINANCE OFFICIALS DO NOT ENTIRELY AGREE WITH THE ABOVE CONCERNS. A SYSTEM RELYING PRIMARILY ON THE DOLLAR SHOULD BE MORE EFFICIENT AND STABLE THAN A MULTI-CURRENCY SYSTEM, AS LONG AS LIMITED OFFICIAL USE
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PAGE 03 EC BRU 00733 232005Z

THE US CONTINUES SOUND ECONOMIC POLICIES. THEY NOTE THAT US LONG TERM PRICE TRENDS ARE GENERALLY FAVORABLE COMPARED TO EC TRENDS. THEY ARE ALSO REASSURED BY US EMPHASIS ON CONTROLLING PRICE INFLATION. THESE OFFICIALS ALSO TAKE ISSUE WITH THE ALLEGATION THAT THE US IS TRYING TO MAINTAIN AN UNDERVALUED DOLLAR TO ENHANCE ITS COMPETITIVE TRADE POSITION. THEY BELIEVE THE US IS ALERT TO THE TRADE IMPLICATIONS OF EXCHANGE RATE LEVELS, BUT IT HAS NOT INTERVENED IN THE MARKET TO MAINTAIN AN ARTIFICIAL LEVEL FOR THE

DOLLAR. NDEED, THEY HOPE THE US WILL INTERVENE MORE TO SMOOTH OUT ERRATIC MOVEMENTS. THESE OFFICIALS AGREE THAT THE US REMAINS PRE-EMINENT IN FINANCIAL MATTERS BUT IT DOES NOT DOMINATE THE DECISION-MAKING PROCESS OF THE INTERNATIONAL FINANCIAL INSTITUTIONS. THE ARDUOUS US-FRENCH NEGOTIATIONS OVER EXCHANGE RATE REFORM ILLUSTRATE THIS POINT.

6. PROSPECTS: COMMISSION OFFICIALS CONTINUE TO BE CONCERNED OVER WIDELY FLUCTUATIONS RATES WHICH, THEY BELIEVE, DISRUPT TRADE, MISALLOCATED RESOURCES AND UNDERCUT PUBLIC CONFIDENCE. THEY LOOK TOWARD A SYSTEM OF GUIDED RATES, A COMPROMISE BETWEEN THE EXCESSIVE FIXATION OF THE OLD SYSTEM AND LARGE RATE MOVEMENTS OF A CLEAN FLOATING SYSTEM. THE DOLLAR RATE FLUCTUATED BY MORE THAN 25 PERCENT AGAINST MANY EC CURRENCIES LAST YEAR. THEY BELIEVE GUIDED RATES CAN WORK EFFECTIVELY BUT WHIS WILL DEPEND ON G-10 MEMBERS' ABILITY TO INTERVENE TO MAINTAIN ORDERLY EXCHANGE MARKETS AND TO COORDINATE DOMESTIC ECONOMIC POLICIES. THEY ADD THAT THE DOLLAR NEEDS TO REMAIN OVER THE LONG TERM AS STABLE AS THE CENTRAL RATE OF THE SNAKE. A CONSISTENTLY UNSTABLE DOLLAR WOULD INCREASE THE USE OF EC CURRENCIES IN INTERNATIONAL FINANCIAL TRANS-ACTIONS AND AS ALTERNATIVE RESERVE ASSETS TO THE DOLLAR. SUCH A TREND WOULD EVENTUALLY PROVE DISRUPTIVE TO THE CURRENT TYSTEM. GREENWALD

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